EARNINGS RESULTS

2Q18

TOTVS

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August
2018

DISCLAIMER

The information contained in this presentation and any forward-looking statements that may be made during the conference call, related to business outlook, operational and financial projections of TOTVS are based on beliefs and assumptions of the Company's management, as well as information currently available. Forward-looking statements are not guarantee of future performance. They involve risks, uncertainties and assumptions as they refer to future events and, hence, depend on circumstances that may or may not occur. Investors must understand that general economic conditions, industry conditions and other operational factors could affect future performance of TOTVS and could lead to results that differ materially from those mentioned in these forward-looking statements.

INCREASE OF INTEREST IN RJ PARTICIPAÇÕES

The subsidiary Bematech S.A. acquired 20% of the capital stock of RJ Participações for R$4.4 million, on May 9, 2018, increasing its interest in the company, which stood at 80%. The remaining 20% call option was extended to 2021.

MAINTENANCE OF THE IT SECTOR IN THE TAX RELIEF OF PAYROLL

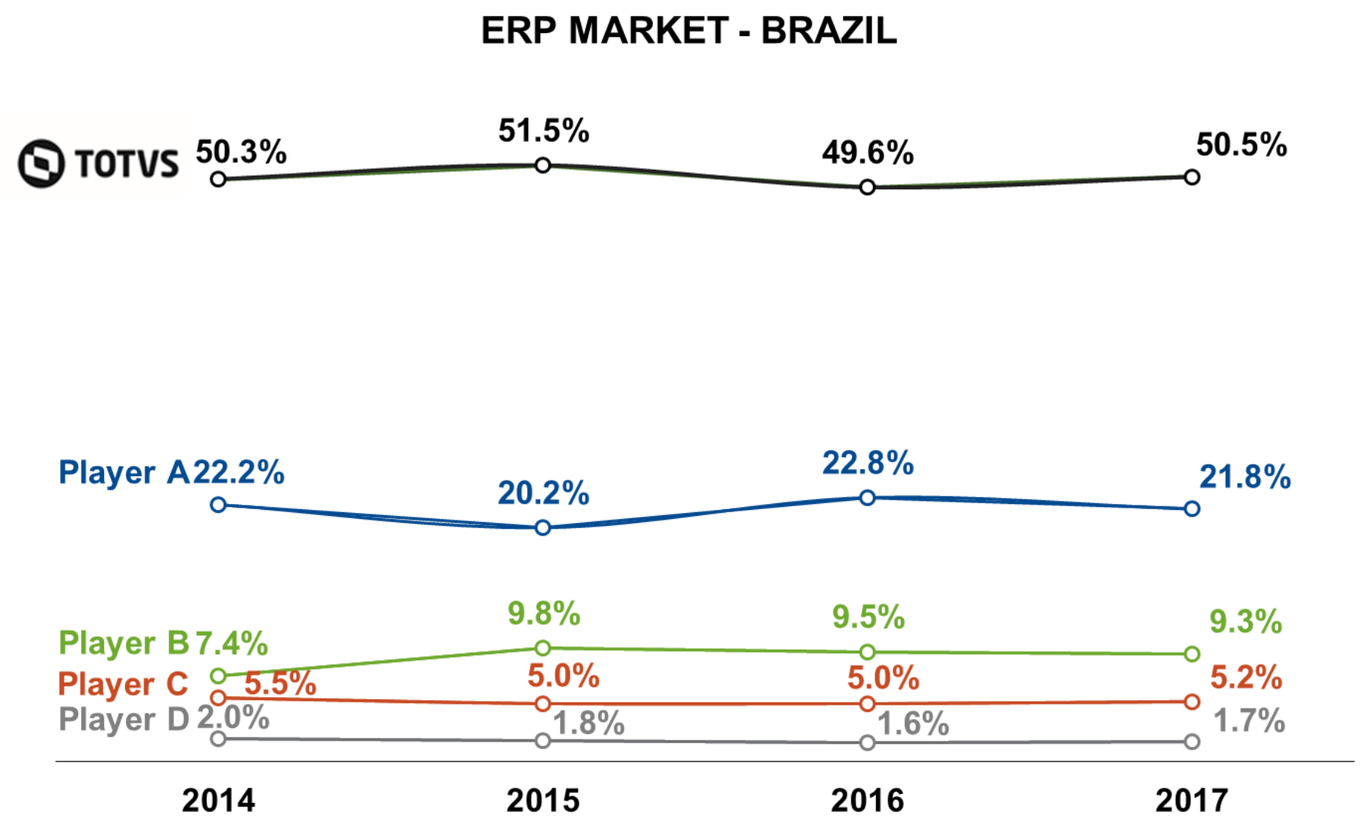
Federal Law 13.670/18, enacted on May 30th, 2018, established the maintenance of employer's social security contribution (INSS) for the Information Technology sector over the gross revenue until December 31st, 2020. After that, it will no longer affect the gross revenue at a rate of 4.5% and will again be levied on the payroll at the rate of 20%.

1H18 DIVIDENDS AND INTEREST ON CAPITAL

In July 25, 2018 the Board of Directors approved the distribution dividends and interest on capital related to the first half of 2018 (1H18). On the total amount of R$ 32,686,400.00, corresponding to R$ 0.20 per share, which R$ 17,997,520.00 refers to dividends, corresponding R$ 0.11 per share and R$ 14,708,880.00 refers to Interest on Capital, corresponding to R$ 0.09 per share.

Both Dividends and Interest on Capital payment will occur in October 3, 2018 to the Company's shareholders on August 1st, 2018.

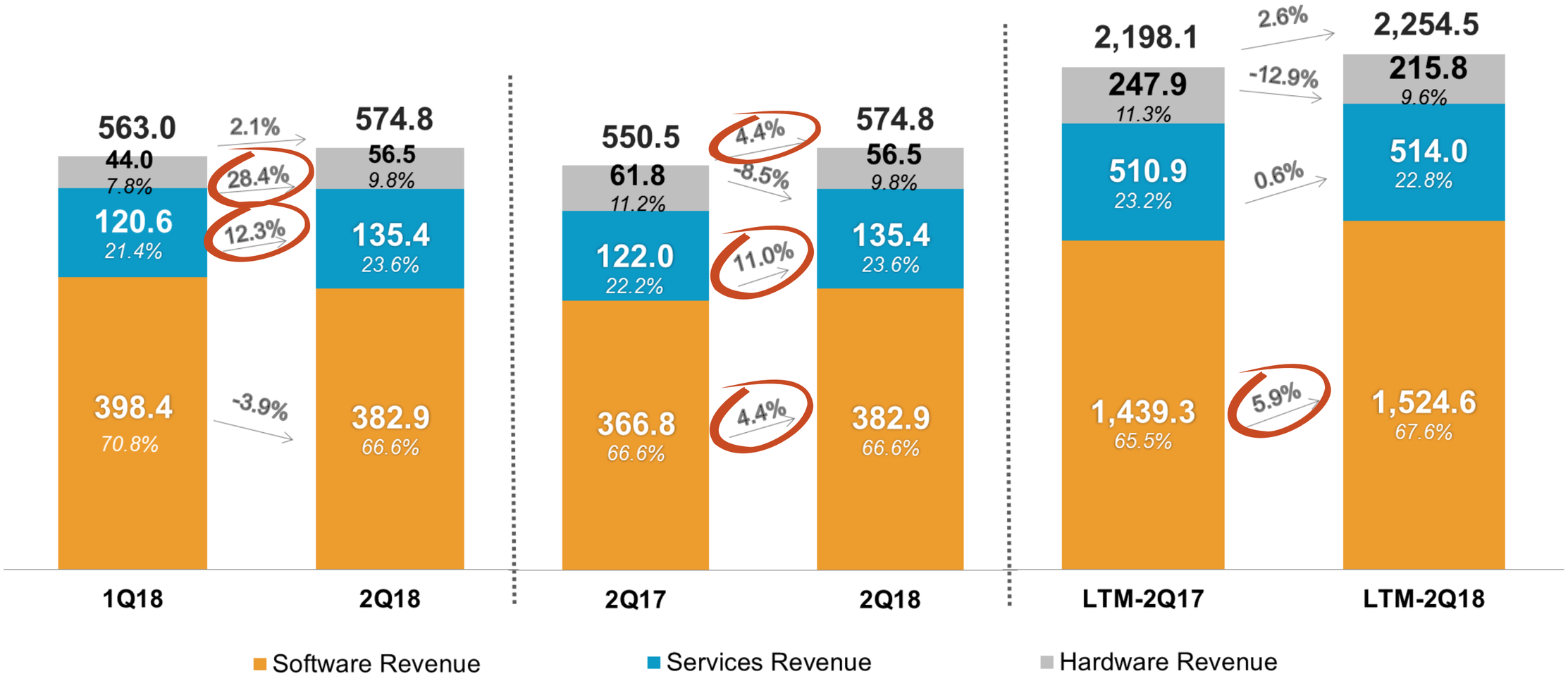
MARKET SHARE UPDATE



Source: "Enterprise Application Software Worldwide, 2016 and 2017" study issued by Gartner

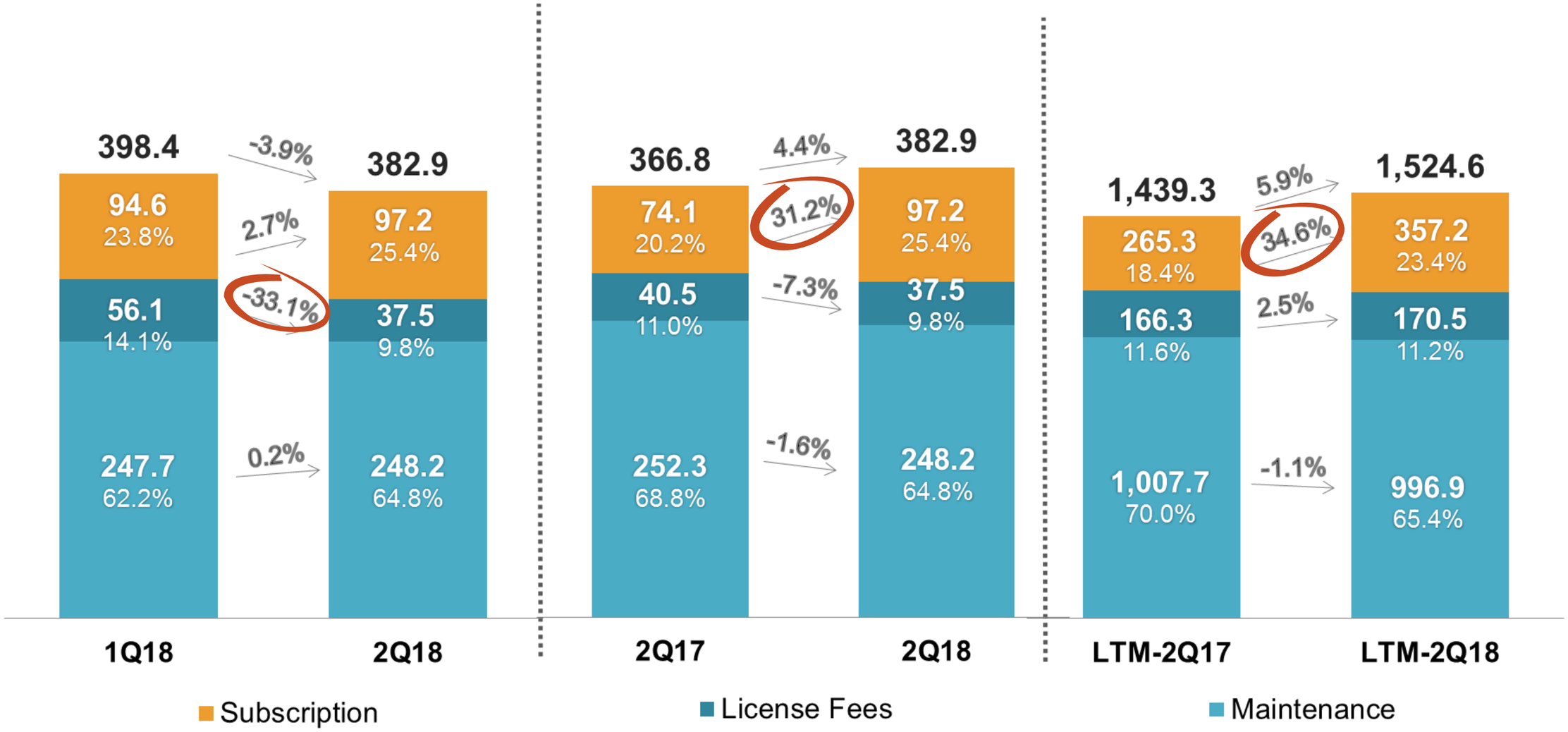
NET REVENUE (R$ MM)

THE QUARTER-ON-QUARTER GROWTH IN NET REVENUE WAS DRIVEN BY THE INCREASE IN HARDWARE SALES AND THE PROGRESS OF SERVICE PROJECTS IN 2Q18



SOFTWARE REVENUE (R$ MM)

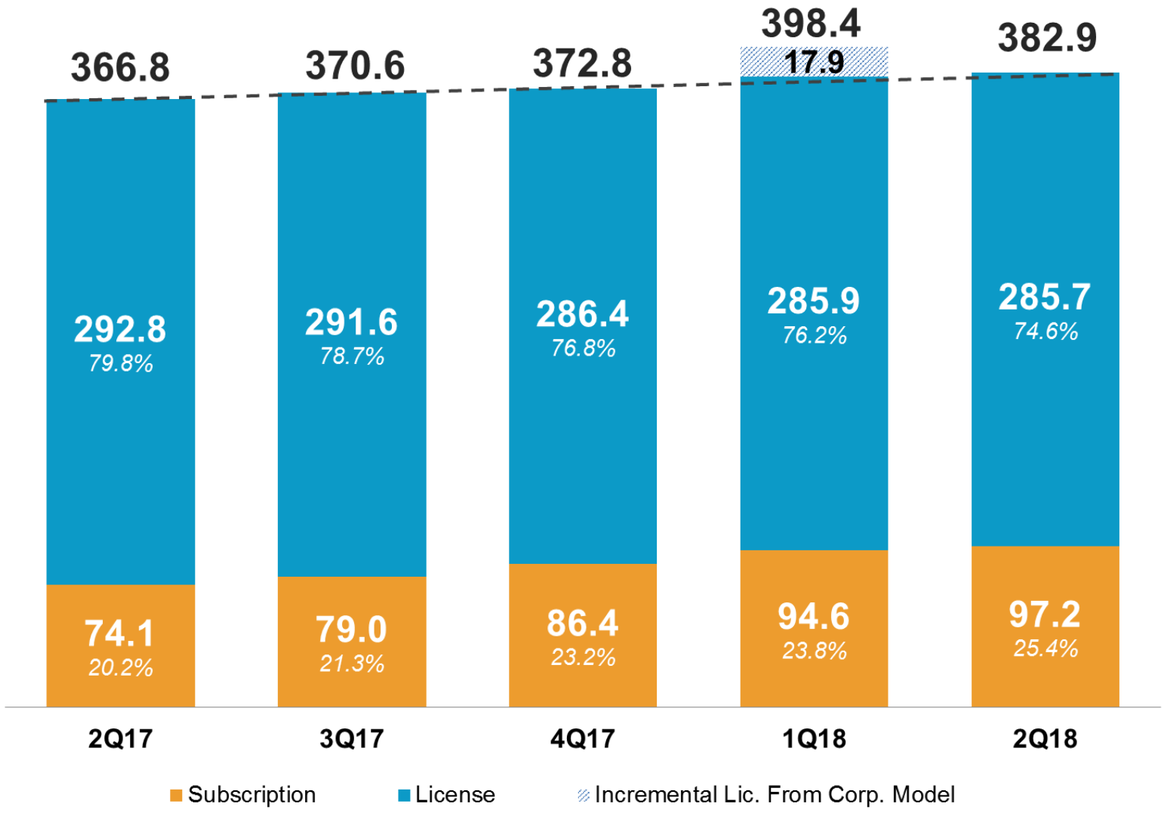
THE REDUCTION IN SOFTWARE REVENUE WAS MAINLY DUE TO THE INCREMENT FROM CORPORATE MODEL IN 1Q18



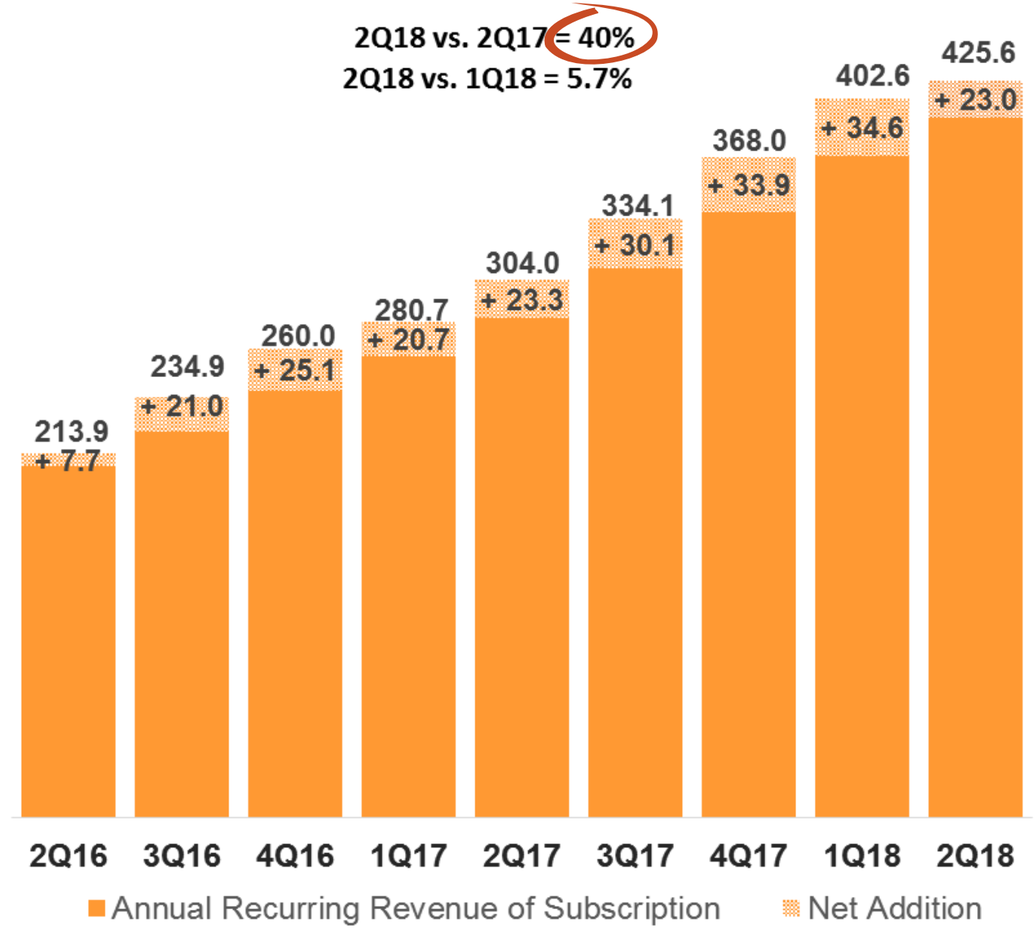
SOFTWARE REVENUE (R$ MM)

THE YEAR-ON-YEAR INCREASE IN SOFTWARE REVENUE WAS DRIVEN BY SUBSCRIPTION, WITH A 40% GROWTH IN A ANUALIZED BASIS

SOFTWARE REVENUE – LICENSE vs. SUBSCRIPTION



ARR – SUBSCRIPTION



SOFTWARE (R$ MM)

THE YEAR-ON-YEAR SOFTWARE MARGIN REDUCTION IS ASSOCIATED TO THE EVOLUTION OF SOFTWARE REVENUE, AND COST OF SUPPORT AND R&D

	1Q18	2Q18	Δ 2Q/1Q	2Q17	Δ 2Q/2Q	LTM-2Q18	LTM-2Q17	Δ LTM/LTM
SOFTWARE REVENUE	398.4	382.9	-3.9%	366.8	4.4%	1.524.6	1.439.3	5.9%
Cost of Software	(22.3)	(21.9)	-1.5%	(21.6)	1.4%	(88.3)	(81.5)	8.3%
Cost of Support	(34.3)	(36.4)	5.9%	(32.6)	11.5%	(137.7)	(131.1)	5.0%
R&D	(87.9)	(94.2)	7.1%	(83.3)	13.1%	(358.9)	(334.2)	7.4%
SOFTWARE RESULT	253.8	230.3	-9.3%	229.3	0.5%	939.7	892.4	5.3%
Contribution margin	*63.7%*	*60.2%*	*-350 bp*	*62.5%*	*-230 bp*	*61.6%*	*62.0%*	*-40 bp*
Non-recurring items								
Additional costs with layoffs	-	-	-	-	-	1.4	1.0	36.2%
Adjusted software result	253.8	230.3	-9.3%	229.3	0.5%	941.1	893.5	5.3%
Adjusted contribution margin	*63.7%*	*60.2%*	*-350 bp*	*62.5%*	*-230 bp*	*61.7%*	*62.1%*	*-40 bp*

SERVICES (R$ MM)

SALES FROM PREVIOUS QUARTERS AND PROJECTS PROGRESS LED TO THE INCREASE IN SERVICES MARGIN IN THE QUARTER

	1Q18	2Q18	Δ 2Q/1Q	2Q17	Δ 2Q/2Q	LTM-2Q18	LTM-2Q17	Δ LTM/LTM
SEVICE REVENUE	120.6	135.4	12.3%	122.0	11.0%	514.0	510.9	0.6%
COSTS OF SERVICES	(115.1)	(125.0)	8.6%	(119.9)	4.3%	(489.3)	(499.7)	-2.1%
SERVICE RESULT	5.6	10.4	86.9%	2.1	398.7%	24.7	11.3	119.6%
CONTRIBUTION MARGIN	*4.6%*	*7.7%*	*310 bp*	*1.7%*	*600 bp*	*4.8%*	*2.2%*	*260 bp*
NON-RECURRING ITEMS								
ADDITIONAL COSTS WITH LAYOFFS	-	-	-	-	-	3.9	-	100%
ADJUSTED SERVICE RESULT	5.6	10.4	86.9%	2.1	398.8%	28.6	11.3	154.1%
ADJUSTED CONTRIBUTION MARGIN	*4.6%*	*7.7%*	*310 bp*	*1.7%*	*600 bp*	*5.6%*	*2.2%*	*340 bp*

HARDWARE (R$ MM)

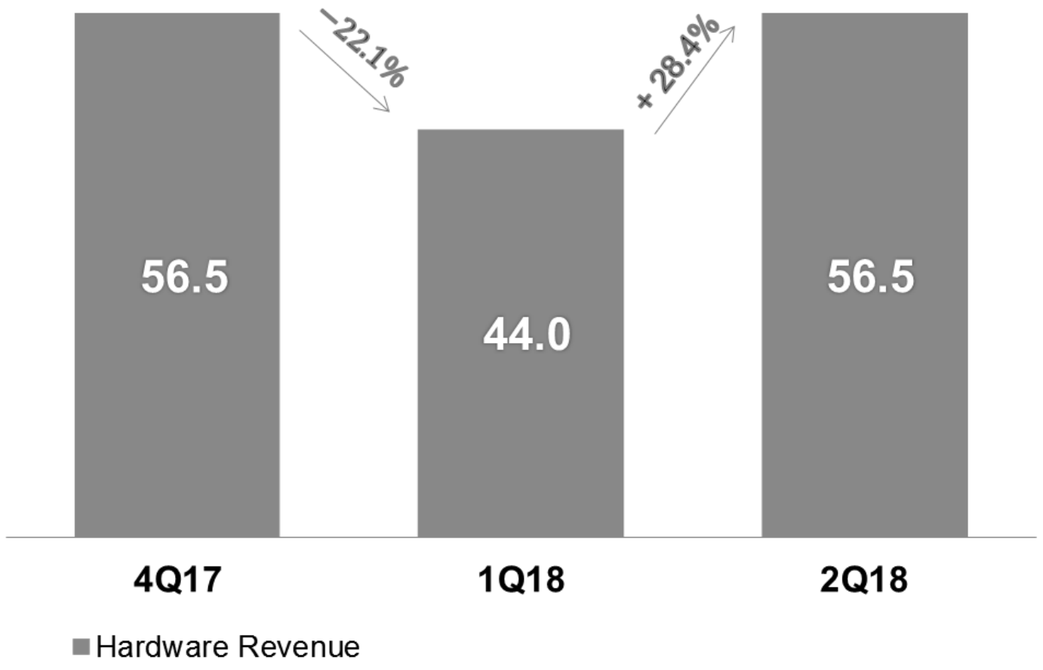
THE GROWTH IN SALES AND SUBSIDIES LED TO THE QUARTER-ON-QUARTER 240 BASIS POINTS GROWTH OF CONTRIBUTION MARGIN...

	1Q18	2Q18	Δ 2Q/1Q	2Q17	Δ 2Q/2Q	LTM-2Q18	LTM-2Q17	Δ LTM/LTM
HARDWARE REVENUE	44.0	56.5	28.4%	61.8	-8.5%	215.8	247.9	-12.9%
COST OF HARDWARE	(29.3)	(38.3)	31.0%	(38.4)	-0.2%	(141.3)	(158.5)	-10.9%
GROSS RESULT	14.8	18.2	23.3%	23.4	-22.1%	74.6	89.4	-16.6%
GROSS MARGIN	*33.5%*	*32.2%*	*-130 bp*	*37.8%*	*-560 bp*	*34.5%*	*36.1%*	*-160 bp*
R&D	(3.9)	(3.0)	-21.6%	(2.7)	13.5%	(15.4)	(11.8)	29.8%
GOV. SUBSIDIES	1.6	2.3	40.8%	2.0	18.1%	5.6	11.0	-48.9%
HARDWARE RESULT	12.5	17.5	39.4%	22.6	-22.8%	64.8	88.6	-26.8%
CONTRIBUTION MARGIN	*28.5%*	*30.9%*	*240 bp*	*36.7%*	*-580 bp*	*30.0%*	*35.7%*	*-570 bp*
NON-RECURRING ITEMS								
INVENTORY ADJUSTMENTS	-	-	-	-	-	-	2.4	-100.0%
ADJUSTED HARDWARE RESULT	12.5	17.5	39.4%	22.6	-22.8%	64.8	90.9	-28.7%
ADJUSTED CONTRIBUTION MARGIN	*28.5%*	*30.9%*	*240 bp*	*36.7%*	*-580 bp*	*30.0%*	*36.7%*	*-670 bp*

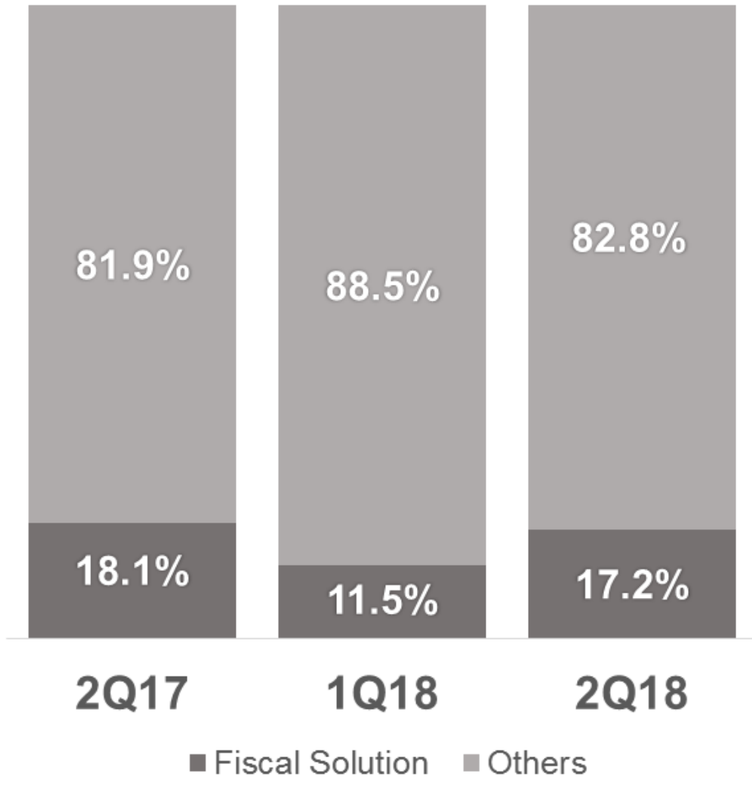
HARDWARE (R$ MM)

...MOTIVATED BY SALES INCREASE AND HIGHER PARTICIPATION OF FISCAL SOLUTIONS IN THE PRODUCT MIX

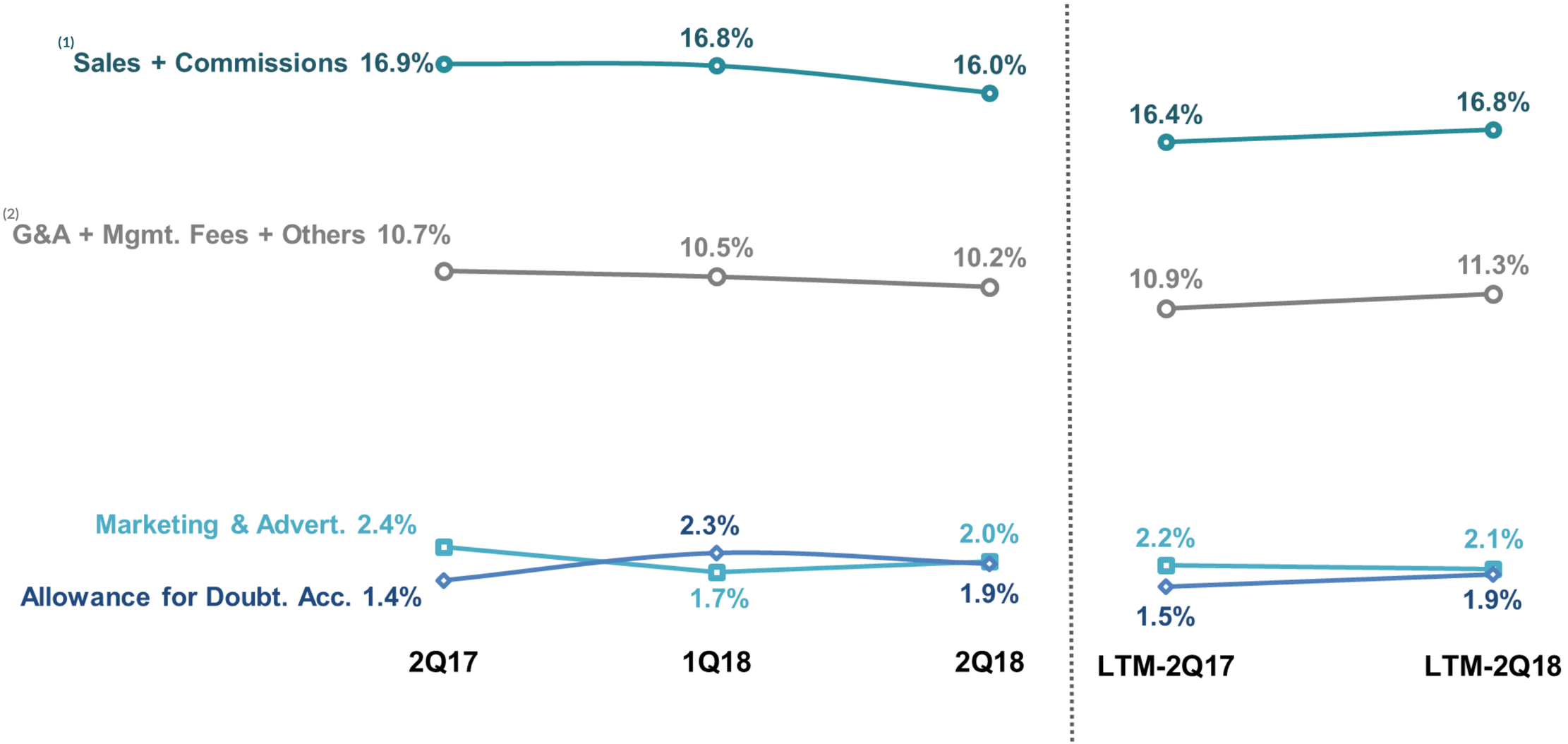
1Q SALES SEASONALITY



PRODUCTS MIX



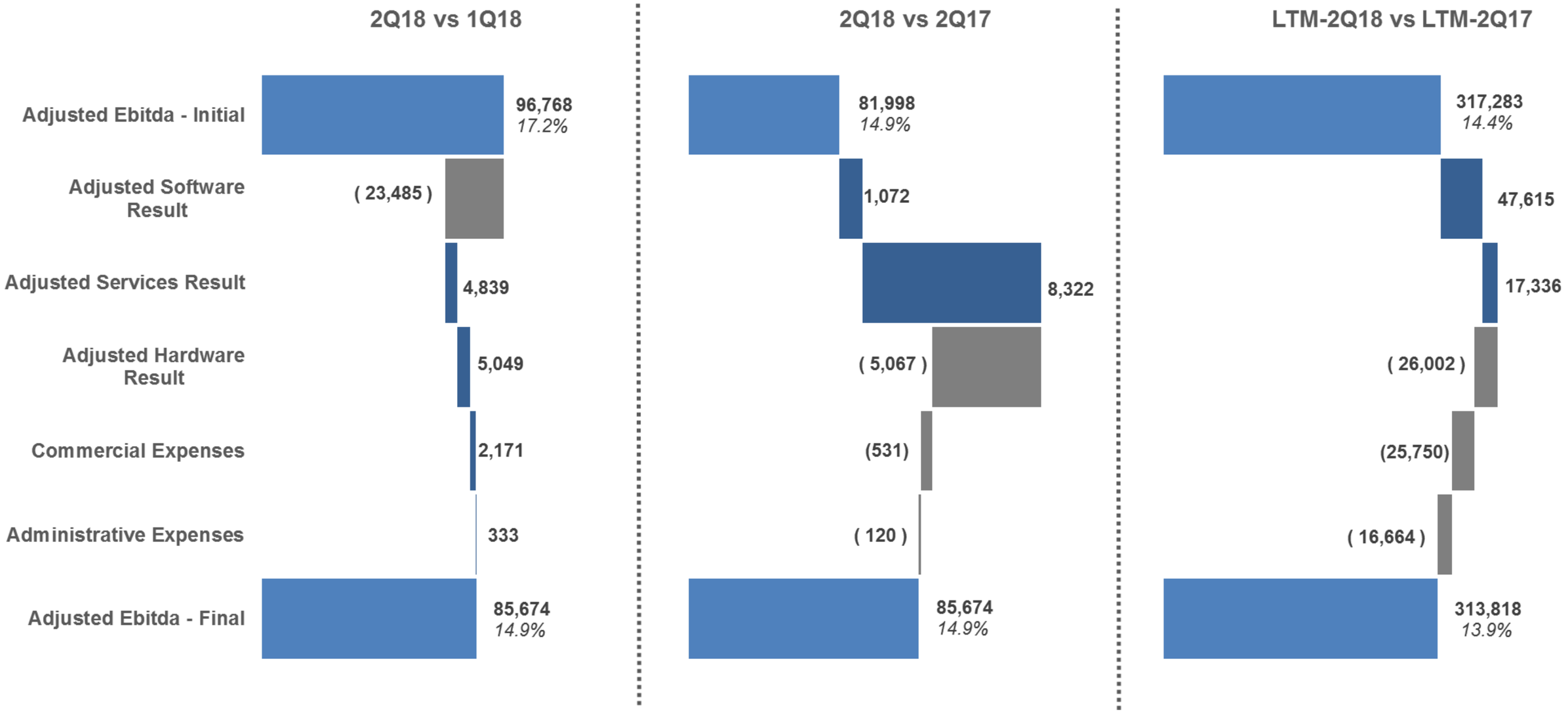
ADJUSTED COMMERCIAL AND ADM. EXPENSES (%NR)



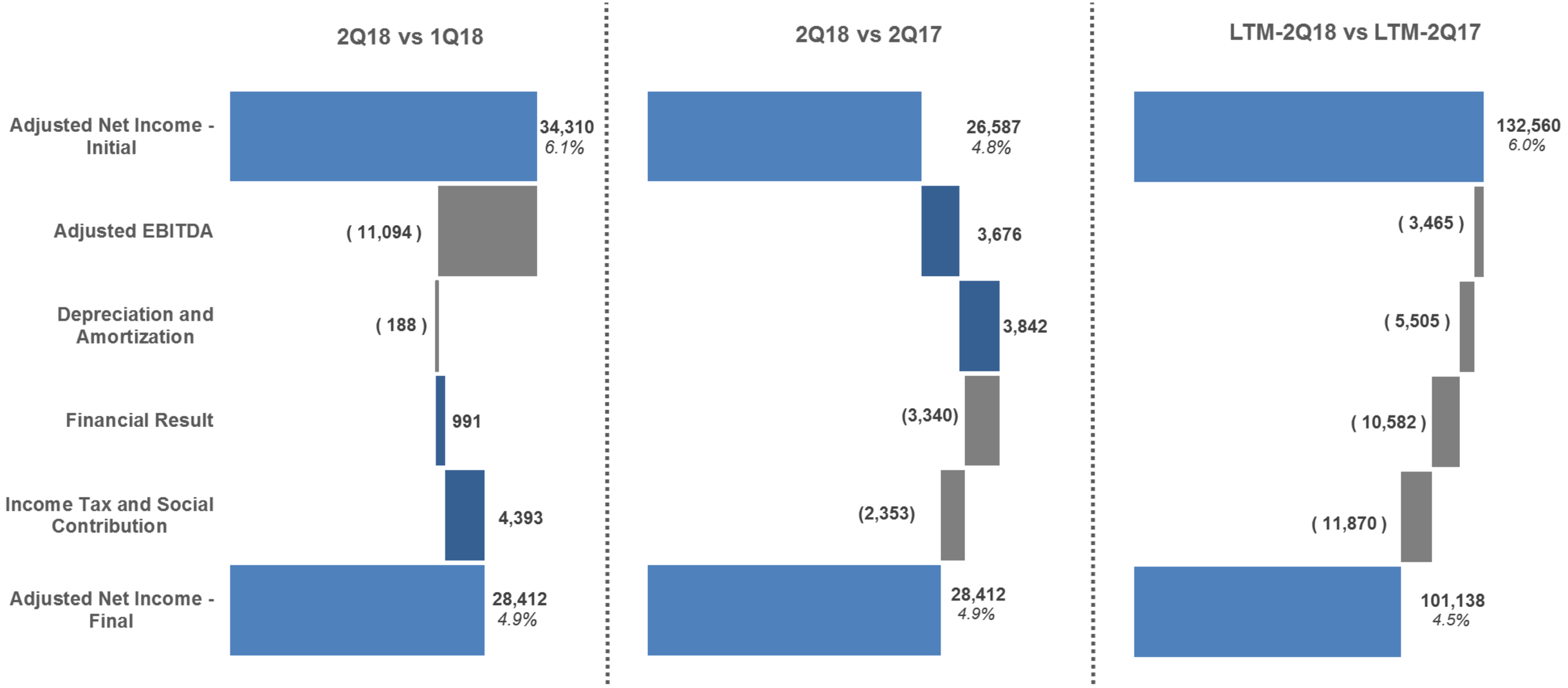
(1) Excluding extraordinary expenses with layoffs

(2) Excluding extraordinary revenue/ expenses from sale of controlled and net property. Layoffs, additional prov. for contingencies and acquisition obligation reversal

ADJUSTED EBITDA (R$ MM)



ADJUSTED NET INCOME (R$ MM)



CASH FLOW AND DEBT (R$ MM)

	1Q18	2Q18	Δ 2Q/1Q	2Q17	Δ 2Q/2Q	LTM-2Q18	LTM-2Q17	Δ LTM/LTM
EBT	51.2	45.4	-11.2%	41.1	10.6%	117.4	133.7	-12.2%
Non-Cash Items	(41.4)	3.8	-109.3%	(10.9)	-135.2%	(27.7)	(45.2)	-38.7%
Change in Working Capital	77.7	69.6	-10.5%	69.5	0.1%	308.0	295.9	4.1%
Interest Paid	(14.7)	(6.9)	-52.9%	(9.4)	-26.0%	(42.5)	(48.9)	-13.2%
Income Tax Paid	(6.5)	(10.6)	62.6%	(3.0)	254.2%	(19.6)	(20.1)	-2.4%
NET CASH FROM OPERATIONAL ACTIVITIES	66.2	101.3	53.1%	87.3	16.0%	335.6	315.3	6.4%
Net Cash used in investing activities	(21.2)	(15.0)	-28.9%	(17.8)	-15.6%	(54.3)	(80.5)	-32.5%
Net Cash used in financing activities	(51.5)	(72.5)	40.8%	(93.7)	-22.6%	(78.2)	(338.6)	-76.9%
INCREASE (DECREASE) IN CASH	(6.5)	13.8	-312.8%	(24.2)	-156.8%	203.0	(103.9)	-295.5%
Gross Cash in the Beginning of the Period	387.2	380.7	-1.7%	215.6	76.5%	191.4	295.3	-35.2%
GROSS CASH IN THE END OF THE PERIOD	380.7	394.5	3.6%	191.4	106.1%	394.5	191.4	106.1%
Gross Debt	657.4	606.2	-7.8%	611.2	-0.8%	606.2	611.2	-0.8%
NET DEBT	276.7	211.7	-23.5%	419.7	-49.6%	211.7	419.7	-49.6%
Net Debt/ LTM adjusted EBITDA	0.9	0.7	- 0.2	1.3	-0.6	0.7	1.3	-0.6
FREE CASH FLOW	54.7	90.8	66.0%	75.6	20.1%	309.2	267.1	15.8%

2Q18 CLOSING REMARKS

- **Net Revenues: +4.4% vs. 2Q17 | +2.6% vs. LTM-2Q17**
- **Subscription Revenue : +31.2% vs. 2Q17 | +34.6% vs. LTM-2Q17**
- **Services Revenue: +11.0% vs. 2Q17 | +0.6% vs. LTM-2Q17**
- **Adjusted EBITDA : +4.5% vs. 2Q17 |% vs. -1.7% LTM-2Q17**
- **Free Cash Flow: +66.0% vs. 1Q18 |% vs. +15.8% LTM-2Q17**
- **Net Debt: -49.6% vs. 2Q17 | 0.7x EBITDA LTM-2Q18 vs. 1.3x LTM-2Q17**



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The success of our client is our success

We value competent people who are nice people

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